

As finance minister in Narasimha Rao's government of the '90s, Manmohan Singh helmed reforms that liberalized India's economy, changing it in a fundamental way.

Singh discusses India's history of industrial policy and economic reform, the impact of globalization, and the role of government in the Indian economy.

India's Central Planning: Nehru's Vision and the Reality

INTERVIEWER: Nehru wrote that socialism has science and logic on its side. What did he mean by that?

MANMOHAN SINGH: Nehru was a rational thinker, and he wanted to apply science and technologies to solve the living problems of our time. In India, the foremost problem was India's economic [and] social backwardness [and] the great mass poverty that prevailed at the time of independence. Nehru's vision was to get rid of that chronic poverty, ignorance, and disease, making use of modern science and technology.

INTERVIEWER: The central aim was to modernize, industrializing in one generation. Was that a crazy idea or a good idea?

MANMOHAN SINGH: Elsewhere in the world, there are instances [of this happening]. The Soviet Union industrialized itself with a single generation. The industrial revolution in England you can break down into phases. A lot of structural changes took place in one generation, which later on became irreversible. That was Nehru's vision.

His vision was to industrialize India, to urbanize India, and in the process he hoped that we would create a new society—more rational, more humane, less ridden by caste and religious sentiments. That was the grand vision that Nehru had.

INTERVIEWER: In the end, did central planning get bogged down in itself? And what is your verdict on the concept of central planning, at least as a first phase?

MANMOHAN SINGH: Let me say that I think the economic history of the last 150 years clearly shows that if you want to industrialize a country in a short period, let us say 20 years, and

you don't have a well-developed private sector, entrepreneurial class, [then central planning is important].

INTERVIEWER: What is your final verdict on central planning for India? Was it the right social [and economic plan]?

MANMOHAN SINGH: In the initial stages of India's development central planning was a positive factor for development of promoting industrialization, of building industries which would never have [been] built. In terms of organizing science and technology, the new national laboratories came into being. If not for central planning, those things would never come into being.

But the real problem starts after 15 or 20 years, because the central-planning system that we have evolved and [that] other countries have evolved lack an effective incentive system to modernize on a progressive basis, to improve productivity, to bring new technology. And that is where the failures of the central-planning economy become far too big a burden to bear.

INTERVIEWER: It's clear that the Soviet economy, with its Five-Year Plans, was an influence on India. Was the British Labor Party's mixed economy model also influential?

MANMOHAN SINGH: Yes, I think India's economy always has been a mixed economy, and by Western standards we are much more of a market economy than a public sector-driven economy. The British idea of public sector and private sector coexisting greatly influenced Nehru's thinking. That was the modification that Nehru introduced over the Soviet planning model.

The Permit Raj and Economic Stagnation

INTERVIEWER: Is it fair to say that the Permit Raj was almost an inevitable consequence of central planning?

MANMOHAN SINGH: Yes, it was inevitable, because in an economy where resources are scarce [and] demands are too many, you need rationing, you need controls, and therefore you need permit license rights. In the initial stages, these controls were introduced in the name of

introducing greater rationality into the allocation process. But after a period of time they became instruments of corruption. They became instruments of delay. They became instruments of uncertainty, and the economy simply could not get a clear sense of direction.

Also, the information system that was necessary to rationally implement these controls, that also got bogged down, so I think it became a factor....

INTERVIEWER: Is it fair to say that to a certain extent the Permit Raj led to stagnation of the economy and the choking off of entrepreneurial growth?

MANMOHAN SINGH: Yes, I think it gave rise to what I sometimes describe as functionalist capitalism. Capitalism historically has been a very dynamic force, and behind that force is technical progress, innovation, new ideas, new products, new technologies, and new methods of managing teams. If you have a rigidly controlled economy, cut off from the rest of the world by infinite protection, nobody has any incentive to increase productivity and to bring new ideas. Therefore, the license Permit Raj became a great handicap in carrying forward the sustained process of sustained growth.

INTERVIEWER: Is it fair to use the Ambassador car as an example of the lack of technical progress in a closed economy?

MANMOHAN SINGH: Yes. I sometimes wonder [about that]. I think Toyota Motors and Nissan Motors came into existence at the same time. Nissan Motors got stuck with the Ambassador cars; Toyota became a world leader in the car industry. That's a measure of the lost opportunities as a consequence of being stuck at a very old-style model of license Permit Raj in a dominated economy.

INTERVIEWER: Why did foreign trade play such a small part in India's economy for so long?

MANMOHAN SINGH: In an economy of continental size, India is bound to be a relatively small proportion. Until very recently [in] the United States, I think trade [has been] only a small part of total national income. Even in Japan, for example, if you look at their exports, their exports are no more than 10 to 11 percent of their GDP. So it is very largely a consequence of

the size of our economy. We are a country of continental dimension with large natural resources.... But in this case, [the tendency toward trade orientation] got further discouraged because of an inward-looking process of industrialization that we adopted.

The World Outside: The Influence of Asian Growth and Soviet Collapse on India

INTERVIEWER: You've already compared Toyota and Hindustan Motors. In the '80s people started to look abroad. I think you yourself were struck by what was going in other parts of East Asia. Tell me what you were seeing and what you were thinking at that time, particularly with reference to South Korea.

MANMOHAN SINGH: In the 1980s the Indian economy did reasonably well by world standards. Latin America and Africa were mired in their debt crisis. The Indian economy grew at 5.5 percent, but if you look at the last 30 years—for example, 1960 to 1985—the progress made by East Asian countries was phenomenal. In a single generation they had been able to transform the character of their economy. They were able to get rid of chronic poverty. Their achievements in terms of economic growth, in terms of social development are far more impressive than most other countries of the world. What happened in East Asia, particularly in a country like South Korea, did influence me very considerably.

INTERVIEWER: Just taking South Korea as an example, am I right in saying that in about 1960 their living standards [and] the output of South Korea and India were the same?

MANMOHAN SINGH: Yes, I think India and South Korea are roughly the same per capita income in 1960, and in 40 years time Korea has become a member of the OECD [Organization for Economic Cooperation and Development], and we are where we are.

INTERVIEWER: And what's the difference in terms of per capita income?

MANMOHAN SINGH: The Indian per capita income would be about \$450. The Korean per capita income, if I remember correctly, about \$11,000, \$12,000 per annum.

INTERVIEWER: All within one generation?

MANMOHAN SINGH: Yes. That's a remarkable achievement.

INTERVIEWER: Did this lead to the beginning of a change of heart in India when people looked at the other Asian economies?

MANMOHAN SINGH: Certainly the fact that many countries of East Asia, much less well endowed than India, have marched far ahead of India's race for social and economic development has influenced a very considerable amount of thinking, particularly among economists and social scientists in the last decades.

INTERVIEWER: What impact did the collapse [and] failure of the Soviet economic model have on people intellectually in India?

MANMOHAN SINGH: This was telling proof that a command-type of economy was not as secure as we had thought. We thought [we]... could look at [the Soviet Union] as a new civilization. And here was an economy and its society and politics which could not defend itself against all the internal contradictions. Therefore the collapse of the Soviet Union—the end of the Cold War was also a major factor—influenced thinking on economic reforms in our country, as it did other countries.

INTERVIEWER: Did Mrs. Thatcher's attack on the mixed economy create waves over here?

MANMOHAN SINGH: There are many people in India that admire Mrs. Thatcher. I've had the privilege of meeting her several times. I have great admiration for her, but I think she had a very limited influence on Indian thinking on economic reforms.

India 1991: "Getting Government Off the Backs of the People"

INTERVIEWER: Can you sum up the financial crisis in 1991? What was the situation India found herself in as you became finance minister?

MANMOHAN SINGH: India had an unsustainable fiscal deficit. Our central government fiscal deficit was as high as 8.5 percent of GDP. India had an unsustainable balance-of-payments deficit. The current account deficit was close to 3.5 percent of GDP, and there were no foreign

lenders who were willing to finance that deficit. Our foreign exchange reserves had literally disappeared, so we were on the verge of bankruptcy, and the nation faced an acute collapse of its economy.

INTERVIEWER: How many days' worth of foreign currency [or reserves] did you have left?

MANMOHAN SINGH: Our foreign-exchange reserves when I took over were no more than a billion dollars; that is, roughly equal to two weeks' imports.

INTERVIEWER: So when you went to see the prime minister and brief him on the state of affairs, what did you say to him?

MANMOHAN SINGH: I said to him that we are on the verge of a collapse. It is possible that we will still collapse, but there is a chance that if we take bold measures we may turn around, and that, I said, is an opportunity. We must convert this crisis into an opportunity to build a new India, to do things which many people before us have thought and said should be done, but somehow were never done.

INTERVIEWER: And how did the prime minister react?

MANMOHAN SINGH: The prime minister was very responsive. Without his active support and help, I could do nothing.

INTERVIEWER: What about the rest of the party? There was quite a journey for them to make ideologically.

MANMOHAN SINGH: We had not prepared the party for those major structural changes that we brought about within one month. But fortunately Rajiv Gandhi did a great service to our country, because he wrote the '91 election manifesto of our party. In that election manifesto he had clearly recognized the need for economic reforms of the type which we undertook. It was an easy task for me to convince the skeptics in the party that I was not doing anything that was against the party. It is a legacy left to us by Rajiv Gandhi. That did not convince the critics, but that silenced them for quite some time.

INTERVIEWER: When you stood up and made your famous speech in Parliament, what were the key arguments you used to persuade your colleagues to go along with you?

MANMOHAN SINGH: The argument was quite simple. We were in the midst of an unprecedented crisis, and it was time to think big, not to shrink. We could, in a traditional way, tighten our belt, and we did that, tighten and tighten. But persistence on that path would have led to more misery, more unemployment, and I said there is an alternative path. Stabilization plus a credible structural adjustment program would shorten the period of misery. It would release the innovative spirit, [the] entrepreneurial spirits which were always there in India in [such] a manner that our economy would grow at a much faster pace, sooner than most people believed. That's exactly what happened.

INTERVIEWER: In [that] speech you quoted Victor Hugo. Can you repeat that quote and tell us how you hoped it would apply to India?

MANMOHAN SINGH: I quoted Victor Hugo's very famous sentence, "No power on earth can stop an idea whose time has come." I said to the Parliament, one month after I had taken over, that the emergence of India as a major global power, [an] economic power, is an idea whose time has come. I sincerely believe that if we did the things that I was saying to Parliament that they should do, no power on earth could stop the realization of this idea. So the dream was that we were in crisis, we should undertake basic structural changes. Out of that will emerge a new India, an India where there will be no poverty, the freedom from poverty, ignorance, and disease. You get that with India becoming a major global player in the world economy. That was the vision that inspired our economic reforms.

INTERVIEWER: For a non-economist, non-Indian audience, what was the key change you made here?

MANMOHAN SINGH: We got government off the backs of the people of India, particularly off the backs of India's entrepreneurs. We introduced more competition, both internal competition and external competition. We simplified and rationalized the tax system. We made risk-taking much more attractive... [and] much more profitable. So we tried to create an environment conducive to the growth of business.

INTERVIEWER: And how about regulations and controls? What happened to those?

MANMOHAN SINGH: We removed a large number of controls and regulations, which in the past had stifled the spirit of innovation, the spirit of entrepreneurship, and restricted the scope for competition, both internal competition and external competition. As a result, in the '90s, productivity growth in the Indian industry has been much faster than ever before.

INTERVIEWER: So that was the death of the Permit Raj?

MANMOHAN SINGH: Well, I hope that was the death. We still need to do a lot more things to remove the [effects] of the license Permit Raj.

INTERVIEWER: When do you think India could reach a level of real prosperity?

MANMOHAN SINGH: We were there [in power] only for five years. Out of these five years, two to three years were very turbulent years. We have masked the monetary controversies. We were not in power for the last four years, and the political developments in India, although the direction of economic policy remains essentially what we laid out, the pace has not been to our liking. I think the pace has slowed down, and that certainly worries me. If we had gotten another five years I think we would have ensured that by the year 2010 or 2015 many of the dreams we had [would have] become a reality.

INTERVIEWER: You've said how you see the future for India. But in that future, what would the role of government be?

MANMOHAN SINGH: The role of government is not a government that will disappear. They share our public expenditure. Total national expenditure of India is only about 30 percent. It's much lower than the United States, much lower than the United Kingdom and many European countries. We are not saying that government will disappear. We're going to redirect this expenditure. The government will take a lot more interest in education, in primary health care, in environmental protections, in promoting research and development. But the government will not be in the business of running industries and running trading enterprises.

It is restructuring the role of the government, getting government out of activities where governments are not very efficient at doing things, getting government more actively involved where we feel markets alone cannot provide the necessary amount of goods to the extent that our people need—basic education, basic health care, environmental protection measures, basic social safety net. These are the things that we feel our country needs, and in a civilized society governments have a major responsibility to provide these basic public goods.

INTERVIEWER: Is India's very successful information technology industry a product of liberalization?

MANMOHAN SINGH: In a way it's a product of both the level of development that India has had in the last 50 years and the great centers of science and technology. We also have a very sizeable industrial base. So I think that [the] contribution of history has to be acknowledged.

At the same time, if the information technology industry had been regulated in the same way as we had regulated other industries, I think that revolution also would have been stopped in its infancy.

One good fortune is [that] the information technology sector has been left alone. Government has played a more promotional role, but not a regulatory role, and that's why I think the favoring of creativity, the favoring of entrepreneurship ... was a help.

Embracing Globalization, and Understanding the Risks

INTERVIEWER: You're quoted as saying "self-reliance means trade, not aid." You said earlier that India was more of a big continental economy that didn't need to trade too much. What do you mean?

MANMOHAN SINGH: What I was saying when we talked of self-reliance means that India has to be integrated into the evolving world economy. We have to share in the benefits of an increasingly interdependent economy. Trade offers opportunities; it creates an environment in which our industry can grow at a rate faster than domestic demand.

The opening of capital markets offers opportunities for us to increase our investment beyond the rate of domestic savings. India should take full advantage of these opportunities of an increasingly globalized economy.

At the same time there are risks, because competition is a two-edged weapon. It helps those who are strong; it hurts those who are weak. India must strengthen its capabilities to withstand the onslaught of competition. The [competitive] process creates an environment in which India's enormous latent strengths in terms of entrepreneurship [and] creative ability could make India one of the global players.

So self-reliance as I saw it meant not making India dependent on foreigners for savings, though we opened up India to increase participation by foreign capital. But I never believed that foreigners could underwrite the development of India. That task will have to be done within India. But [it should be done] in a manner in which the bulk of savings for India's development would continue to be generated domestically.

INTERVIEWER: So you see globalization in the main as a net gain for India?

MANMOHAN SINGH: It offers opportunities, but problem areas.... For example, we are part of the world trading system. There are opportunities, but also the introduction of a large number of extraneous elements into Uruguay [the 1986-1994 Uruguay Round]. For example, the TRIPS [the International Property Council of the WTO] legislation has created burdens in terms of the prices of essential drugs. The TRIPS legislation is a negative.

The opening up of agriculture [is another] example. Our agriculture is not subsidized. Agriculture in Europe and America is highly subsidized. Now, if you're going to have a world situation in which the highly subsidized agricultures of Europe and America are going to compete against the non-subsidized agriculture of India, I worry about that. But I do believe they're taking pluses and minuses. India has every reason to be a part of the world trading system.

INTERVIEWER: Some people would say that the rules aren't fair, that the powerful countries, the rich countries set the rules, and it'll always be to the disadvantage of the emerging countries like yours.

MANMOHAN SINGH: That's certainly true. The international economic game is a power game, and those who are strong are always able to lay down the laws of the game. As I see it, India is not strong enough to rewrite the rules of the world game in its own image. But there are opportunities, and [other] countries of East Asia have taken advantage of those opportunities of the trading system, which has many minus points, also.

India has to do the same thing, taking advantage of these opportunities to realize its destiny, and in the process hope that in due course of time we will be strong enough to also influence the writing of the rewriting of the rules of the game.

INTERVIEWER: Do you think that globalization will help to solve India's perennial problems of poverty?

MANMOHAN SINGH: Globalization creates opportunities. As I said, freer trade, if it is genuinely free, and India's labor-intensive products can find markets abroad that will help to get new jobs in our country. That will help to relieve poverty.

In the same way, if we have access to first-class technology, then we don't have to reinvent the wheel. We can cut short the process of modernizing our economy. In the same way, opening up of the capital markets [and] freer flow of capital can increase our rate of investment [and] the rate of growth at a rate faster than the rate of domestic savings.

But as I said before, our competition is a two-way street. If we do not educate our people, then there is great danger that in the type of world economy that is now on the horizon, the knowledge-centered world economy, it is only the skilled workers who are going to be the biggest beneficiary of the growth processes. If India's working force is not adequately educated, then globalization will lead to the destruction of many of our traditional industries.

It is our responsibility to ensure that globalization becomes a positive game, and of course we need the rest of the world as help to see that the international economic environment remains supportive of the needs of the poorer countries.

The Power of Protest: Forcing Change or Perpetuating Misery?

INTERVIEWER: Globalization and change generally brings disruption. Take blue-collar workers in America, or farmers in America. The competition from countries like India is going to cost jobs and livelihoods, their whole way of life. Do you see the pendulum swinging back, abroad or here, against globalization?

MANMOHAN SINGH: In this country there are worries. I mentioned the intellectual property rights, clauses of the WTO agreement, [and] the opening up of agricultural markets. We are going this year to remove all quantitative import restrictions, and there are worries in several segments of our industry that this is going to hurt our industry. But I do believe that we have enough instruments in our system to ensure that the damage can be contained.

INTERVIEWER: What's your reaction to the anti-capitalist, anti-WTO campaign, and its legitimacy?

MANMOHAN SINGH: Let me say that there are people in the West who would like to further go on the road to rewrite the rules of the game. The needs of U.S. labor, for example, all this talk of introducing labor standards into WTO negotiations, environmental standards.

These are non-trade issues. The American attempt at Seattle to introduce these extraneous issues really created serious doubts in the minds of many developing countries that new protectionism was back in the West in the guise of labor standards, social standards, and environment. I sincerely believe that the West should resist using the WTO as an instrument to promote these causes.

This is not to say that labor standards are not important, our environmental standards are not important, but we have international institutions. The ILO [International Labor Organization] is there; the UNIP [United National Independence Party] is there. Those things should be dealt with in those [organizations]. But to do these things as sanctions in trading relations will

perpetuate the inequities of the present trading system, where the stronger countries always dictate the rules of the game.

INTERVIEWER: One of the cases that often comes up if you talk to anti-WTO people is child labor. You know Britain abolished child labor in about 1814, the United States in about 1930, '35. How would you argue that from your point of view?

MANMOHAN SINGH: We are not saying that we have a right to employ child labor. Our national legislation does recognize that this is a curse. All of our children should be in schools. But by using the practice of child labor as an excuse to impose restrictions on India's labor-intensive products, is it going to help those children? It's just going to perpetuate the misery. It is going to reduce our country's ability to find resources to deal with the causes of those children not being in school.

INTERVIEWER: What about the legitimacy of the anti-WTO demonstrators? Who do they represent?

MANMOHAN SINGH: I think this is a strange coalition, quite frankly. I do not want to question [their] motives. Many of them are highly motivated, international-spirited, but it appears to me that the extreme right or the extreme left have got to come together, just as sometimes I feel that [they must] when it comes to population control. Both the extreme right and the extreme left seem to agree, and this is another instance where the two seem to have coalesced.

Singh the Economist: Trained in One School of Thought, Subscribing to Another

INTERVIEWER: You were rather surprised when you were invited to be finance minister. But how did it actually happen?

MANMOHAN SINGH: You should ask that question from Prime Minister Rao. I was very surprised when this news was conveyed to me. I didn't believe it. When I asked some friends of mine they said, "You're going to become the scapegoat. You're going to fail and maybe within six months you will be out." And I said I was the Fagin of my peers. I'd held all the top civil service jobs, but here was an opportunity to play a political role, and there was an odd

chance that we would make a success of it, in which case I would have a footnote in India's history. If I fail, that's of no great consequence. And who fails if India wins?

INTERVIEWER: Did you have any trepidation when you stepped into this role?

MANMOHAN SINGH: I had trepidation, but somehow I was convinced that we would go through. I said to the country on the day I became finance minister that the economy was in such bad shape that you shouldn't expect any major rewards for the next three years. All I can promise is blood, sweat, and tears. But quite frankly I think that the economy turned around much sooner, much quicker, and much more deeply than I had anticipated. That's why our critics were completely silenced. They were predicting massive doses of unemployment.

Nothing of that sort happened. Indian industry boomed. All segments of Indian industry—capital goods, consumer goods, intermediate products—grew. We created a record number of jobs. We were able to control inflation and the economy was growing at the rate of 7 percent per annum.

INTERVIEWER: You studied economics at Cambridge and Oxford. What was the prevailing orthodoxy when you were a student? What did you embody?

MANMOHAN SINGH: I had the privilege of being taught by stalwarts like Joan Robinson, Nicholas Kaldor, Richard Kahn, Maurice Dobb, and Sir Dennis Robertson. I think the predominant mood of the times at that time was that you need strong government intervention, along the Keynesian theme, to stabilize the capitalist economy; that in poor countries you need strong government intervention to move the economy onto a path of self-sustained growth.

INTERVIEWER: If they saw you now they'd be spinning in their graves, wouldn't they?

MANMOHAN SINGH: At that time whosoever came to India, whether they came from MIT or from Cambridge, England, the advice to the country was almost the same. If you really want to take off into self-sustained growth, to use the famous phrase, the government has to be the major leading player.